Should business and non-business accounting be different? A comparative perspective applied to the new French governmental accounting standards

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Abstract: With the enactment of the General Law of Finances of 2001 (LOLF, 2001), the French Government introduced a new set of accounting standards shaped by an explicit conceptual framework. This legislation retains for public sector accounting the logic of financial reporting that had been in effect for business enterprises, but also addresses the "specificities" of accounting for public sector entities. The advent of LOLF has raised a number of questions about how to make non-business entities "accountable." In this context, this paper analyzes the new French "accounting constitution" from a theoretical perspective that compares business enterprise and non-business accounting representations. The concept of non-business entity is used to explore further the nature and role of public sector activities within the economic system and their economic and monetary significance. Following this approach, three different views of accruals-based accounting for business enterprises are addressed: the wealth-basis (static), the cash-basis, and the flow-basis (dynamic). Whilst the wealth-basis refers to fair value and results to be at odds with the specificities of the public sector economics, a dynamic view of the accruals basis is developed and adapted to these specificities. This dynamic view is applied to a conceptual assessment of the new French accounting set. In particular, the notions of "produit" (revenue) and "actif" (asset) create an ambiguity between the static view and the dynamic view.

Keywords: public accountability, accruals and cash accounting, non-business accounting, governmental accounting theory and standards, France, nature and role of the accounting entity

JEL classification: D73, E62, H61, M40

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INTRODUCTION

The General Law of Finances ("Loi Organique 2001-692", August 1st 2001, or LOLF) was enacted by the French government in order to establish a new set of accounting standards shaped by an explicit conceptual framework. The enactment of this law corresponds with a more general international trend (Sutcliffe, 2003; Lüder, 1992; Caperchione and Mussari 1999 eds.; Lande, 2000b; Olson-Humphrey-Guthrie 2001; Robb and Newberry, 2006) in which accounting for public sector activities appears to be moving away from a prior emphasis on cash-basis budgeting towards a more business-style accounting based on accruals (Hopwood and Tomkins, 1984; Robinson, 1998; AA.VV., 2003; DGCP, 2004; Granof and Wardlow 2002; Cantù 2003; Carlin 2005; Carnegie and West 2005; Biondi 2008)[1]. LOLF was shaped and sustained by the articulation of an explicit conceptual framework combined with thirteen specific accounting standards (hereafter, the framework, see Table 1 for a summary).

TABLE 1. THE NEW FRENCH FRAMEWORK FOR GOVERNMENTAL ACCOUNTING	
Conceptual framework	This conceptual framework for central governmental accounting is not "*a rule-making standard in itself*", but "*helpful material for understanding and interpreting the rules*," and "*a conceptual benchmark for rule-makers to ensure the consistency of various rules and standards*".
Standard n° 1	Financial Statements: "*This Standard sets out the structure and form for financial statements using business accounting as a model, with due consideration for the specific features of the central government.*"
Standard n° 2	Expenses: "*This Standard defines the central government's expenses and sets the rules for the accounting treatment and valuation of these expenses.*"
Standard n° 3	Sovereign Revenues: "*The purpose of the Standard on sovereign revenues is to define the general principles governing the accounting treatment of sovereign revenues and the presentation of these revenues in the financial Statements.*"
Standard n° 4	Operating Revenues, Intervention Revenues and Financial Revenues: "*This Standard defines the central government's operating, intervention and financial revenues and sets the rules for the accounting treatment and valuation of these revenues in keeping with accruals accounting principles.*"

[1] See Lande (2000a) for a general presentation of the French case.

Standard n° 5	Intangible Assets: This standard considers whether certain central government's operations hold specific, intangible rights that should be recognised as assets. This analysis deals with issues related to sovereign revenues, revenues arising from the use of public property, public service concessions, public projects, and internally produced assets.
Standard n° 6	Tangible Assets: "*The Standard on "tangible assets" deals with two main issues: (i) Which assets should be recognised as tangible assets in the central government's statement of financial position? (ii) Which amount should be recorded for these assets in the central government's statement of financial position?*"
Standard n° 7	Financial Assets: "*This Standard deals with the central government's equity investments, the claims arising from these investments and loans and advances that the central government makes to other entities (all entities incorporated as separate entities from the central government).*"
Standard n° 8	Inventories: "*This Standard deals with central government inventories. It deals with the issues of definition and scope first and then with the valuation methods to be used.*"
Standard n° 9	Claims related to current assets: "*The purpose of this Standard is to define the rules for the accounting treatment and valuation of claims related to current assets.*"
Standard n° 10	Central government cash position components: "*This Standard defines the components of the central government cash position for the purpose of identifying, presenting and analysing these components with due consideration for the specific features of the central government.*"
Standard n° 11	Financial debts and derivative financial instruments: "*The objective of this Standard is to present the financing resources used by the central government as part of its financing strategy. These financing resources include financial debt and all of the financial instruments related to dynamic debt management.*"
Standard n° 12	Provisions for risks and liabilities, non-financial liabilities and other liabilities: "*This Standard deals with provisions for risks and liabilities, non-financial debts and other liabilities.*"
Standard n° 13	Commitments to be disclosed in notes to the financial statements: "*This Standard identifies the central government commitments that should be disclosed in the notes to the central government financial statements because of their materiality and their potential impact on the assets and liabilities that make up the central government's financial situation. These commitments are called "off-balance sheet commitments". This Standard also sets out the procedures for recognition and valuation of these commitments.*"
Standard n° 14	Accounting policies, changes in accounting estimates and errors: "*This standard sets forth the appropriate accounting treatment and information to be provided concerning the changes in accounting policies, accounting estimates and errors within the framework of a general standard, in the event of amendments to the central government standards and subject to such special provisions as may be made in the new standards.*"
Standard n° 15	Events after the balance sheet date: "*The standard prescribes when the financial statements should be adjusted and what information should be disclosed in the light of events occurring after the balance sheet date. The standard defines the concept of subsequent events, the final date for adjusting the financial statements, and the*

	information to be disclosed in the notes to the financial statements."

This framework takes its inspiration from other conceptual frameworks such as that of the IASB (IFRS) and from the accounting standards developed by the IFAC – Public Sector Committee (IPSAS), as well as prior French legislation and regulations. LOLF purports to mimic business accounting as far as possible, but also requires notice of the "special action of the state," that is, the "specificities" that arise through public sector activities. In particular, article n° 30 of the LOLF says that "the rules of general accounting for the state are not to be distinguished from the rules of accounting for businesses except by reason of the specificities that arise through the special action of the state".[2]

The problems associated with applying business accounting systems to public sector entities are well known. For example, Mautz (1981, 1989), Glazer and Jaenicke (1991), Pallot (1992), Guthrie (1998), Chan (1999, 2003), Coy, Fischer and Gordon (2001), Ellwood (2003) and Ellwood and Newberry (2006) have criticized the application of business accounting to the public sector and argue for the creation of special forms of accounting for public sector entities justified by their special institutional purposes. In addition, the existence of different types of assets and liabilities, expenses and revenues that do not exist in business enterprises suggests a need for special accounting systems for public sector entities. As GASB (2006: 16) concludes in a recent white paper on the matter:

> Governments are fundamentally different from business enterprises. As a result, separate accounting and financial reporting standards for governments are essential to meet the specific needs of the users of governmental financial reports. The standards for governments need to reflect the unique environment of government, including different organizational purposes and special legal powers, and to effectively address public accountability issues inherently related to the unique government environment.

In this spirit, this paper aims to develop an original conceptual approach based upon the comparison of financial accounting representation for the economics of business and non-business entities[3]. The main thrust of this approach draws upon the presence or absence of a "profit motive" as key distinctive feature. In particular, the basic assumption is that the non

[2] « Les règles applicables à la comptabilité générale de l'État ne se distinguent de celles applicables aux entreprises qu'en raison des spécificités de son action » (our translation).
[3] One of the key references for this analysis is Anthony (1978).

business economics of public administration plays a key redistributive role, which it accomplishes through governmental provision of public services, direct transfers or grants, and deficit spending. The paper is therefore concerned with alternative bases of accounting and economics of public administration, rather than forms and extent of disclosure. Its focus is less on the informational needs of the users of accounting reports (Mayston 1992) than on the accounting representation of the underlying economics of the governmental activities, including the relationship between those users and the reporting entity that is framed and shaped by the accounting system[4]. Following Ijiri (1975, p. ix):

> Accounting is a system designed to facilitate the smooth functioning of accountability relationships among interested parties […] in contrast to the widespread idea that accounting is a system for providing information useful for economic decisions. […] The latter […] focuses only upon the relationship between the accountant and the decision maker and does not deal with the important relationship between the decision maker and the entity whose activities are being reported.

The comparative perspective of the paper addresses three different views of business accounting: the wealth-basis (static), the cash-basis, and the accruals-basis (dynamic). The three views correspond with the three primary financial statements and therefore each view relates to which financial statement takes primacy. The static view relates to the balance sheet statement and the related approach, the financial view to the cash flow statement and approach, the dynamic view to the income or operating statement and approach. In addition, the three views correspond with distinctive accounting structures. In particular, the static view relates to a definition of income as wealth creation or value added, established through a stock method (assets-liabilities approach), whilst the dynamic view relates to a definition of income as generation of actual net revenues, established through a flow method (revenues-costs approach). For instance, Storey and Storey (1978) claim for the static view, whilst Anthony or Ijiri or the longstanding continental European tradition of dynamic accounting theory (the classic reference is here to Schmalenbach) claim for the dynamic view.

In order to meet the specificities of non-business economics of public administration, the paper modifies the dynamic view of the accruals basis of accounting, whilst the static view is explicitly rejected. The dynamic view results to be the appropriate view of non business accounting, since

[4] See Patton (1992) for a general discussion on notions of accountability in governmental accounting and disclosure.

only this view is compatible with the specific function of redistribution accomplished by the state through its financial and economic action.

This dynamic accounting approach to public administration is then applied to the analysis of the new French framework for governmental accounting in order to both provide assistance in interpreting its application, and propose improvements. Since 2001, the recent reform of French public administration (namely, the LOLF) mandates this special framework for governmental accounting in France. Its analysis may then be useful to compare the French case to other international practices, and to enhance conceptual frameworks for non business entities in general. The paper adopts a hypothetical-deductive and normative approach by applying a dynamic accounting conceptual view to the analysis of the French governmental accounting framework and standards issued by the LOLF.

The rest of the paper is as follows. The first section deals with the three views of business accounting in a comparative way. On this basis, it develops the conceptual approach that is appropriate for non business economics of public administration. This approach consists in a dynamic view of the accruals basis of accounting. The second section applies this dynamic accounting framework of reference and analysis to the new French accounting framework and standards. The latter shows a fundamental ambiguity between the static view and the dynamic view that undermines its consistency and takes the serious risk of contrasting its redistributive role in economy and society. The third section develops further comments regarding the socio-economics of public administration behind accounting standards. A brief summary concludes.

SECTION I - DISENTANGLING A THEORETICAL PERSPECTIVE OF ACCOUNTING FOR NON BUSINESS ENTITIES

The trouble with the enterprise approach

Many prior studies (for example, Humphrey and al. 1993) indicate that, the “appeal of enterprise” constitutes a principal feature of the recent international trend in accounting for the public sector. In addition, the reference to business-style accounting is one of the fundamentals of the so-called “new public management” movement (for example, McCulloch and Ball 1992 or

Stewart 2002). Business-style accounting and management are considered to be the benchmark for all organizations that perform various human activities. This is a critical issue, for accounting systems cannot be appreciated as mere technical tools, and the representations they involve shape in a significant way the organized activities that those systems make “accountable.” Moreover, financial and public accountability appear to be considered as the key focus for governmental accounting, and business-style accounting may not be the most appropriate for them (Mack and Ryan, 2006; GASB 2006).

The impact of business logic on the special environment of the public sector has been questioned thoroughly and vividly (Mayston 1993; Lapsley-Brunsson-Miller, 1998; Broadbent-Laughlin 2003). The enterprise approach has a considerable rhetorical force in justifying and fostering the process of reform, but a straightforward reference to business accounting involves at least two main problems related to (i) the distinctive views that exist in accruals-based business accounting, and (ii) the perhaps unintended consequences on the nature and role of public organizations as *non-lucrative* human activities. This section treats these problems successively. It seeks to disentangle the peculiar dynamic accounting view of the accruals-basis of accounting that is consistent with the special economy implied by public (non business) economic activities and its own cognitive, organizational, and institutional needs. This view focuses on expenses and corresponding contributions, and it enhances the current public sector accounting system of representation and interpretation.

Three distinctive views of business accounting

The introduction of business enterprise accounting systems into the public sector raises a question as to which accounting framework is being considered. In our opinion, at least three accounting representations of business activity have been proposed and currently are under discussion (Table 2):

- A static view (patrimonial), focusing on the net worth of the enterprise and its valuation at a specific moment in time;
- A financial view (cash flow), focusing on the financial inflows and outflows of the enterprise

and representing the resources available at a particular time to meet the needs or purposes of the enterprise;

- A dynamic view (economic), focusing on the resource inflows and outflows of the enterprise and representing the resources mobilized (and utilized) by the activities of the enterprise during a particular period.

Table 2. Accounting views of the business activity

	Static view	**Financial view**	**Dynamic view**
Orientation	*Wealth*	*Cash Flows*	*Income*
Focus	*Net worth*	*Resources available*	*Resources mobilized (and utilized)*
Basis of reference	*Properties and claims*	*Cash outflows and inflows*	*Matching of costs and revenues*
Timing	*Moment in time; changes between moments*	*Time period*	*Time period*
Recovery of …	*Values conferred*	*Cash outflows*	*Costs absorbed*

These three different views complement each other within any given accounting system, however, as overall guides for representation and interpretation, they are ultimately alternatives. The current debate on accounting for business entities relates to the shift from the traditional historical cost model, akin to the dynamic view, toward a fair value accounting model that relates to a static view and has been fostered by international accounting convergence.

The *static* view focuses on evaluating the net worth of an enterprise. The net worth is determined by valuing the set of assets (or properties and rights) held by the enterprise, less the set of liabilities (or claims and obligations). This representation is static because it refers to a specific moment in time. The accruals basis is here associated with estimates and valuations of current values (fair values) at that moment. In contrast, the *financial* view follows the "cash flows" (monetary or financial) arising from the activities of the enterprise. It identifies a set of financial resources and a set of acquired resources which are capable of sustaining and developing the activities of the enterprise. Finally, the *dynamic*, or economic, view expands upon the latter, because it starts from the monetary and financial flows and reclassifies them according to the resources utilized during the period in order to match the costs of these resources against the corresponding revenues. This matching of costs against revenues characterizes here the accruals basis of accounting. According to this classification, accounting is not made dynamic by taking into account the current value of an imagined future (as the static view does), but since it refers to the accruals of actual expenditures related to the ongoing productive process of the enterprise entity[5].

The accruals basis in the business sector: the linkage between exchanges, incomes, and prices

In the business sector, business entities are expected to look after revenues from operations and gains from investments. The representation of revenues is then determined by aggregating the payments received *and to be received* from a particular set of commercial transactions. Concerning the revenue recognition, accounting may follow the traditional realization principle (Anthony, 1978, p. 122; Sunder, 1997, p. 194), which fits the dynamic view, or the fair value approach that results in estimating future revenues at the recognition date (Ijiri 2005). The latter fits the static view. According to an operational understanding of the economics of business entities, and independently from the accounting recognition method, commercial revenues:

a) Involve the eventual transfer of a good or service in exchange for an actual or promised or expected monetary charge (i.e. a transfer of cash or an entitlement to receive cash);
b) Imply a profit motive, i.e., the seeking of a satisfactory (reasonable) business income, in which revenues are capable of "recovering" at least the resources utilized by the generating activity (dynamic view and cost approach) or invested in the related good or service (static view or value approach);
c) Incorporate in pricing a judgment about the utility of the purchased item based on the voluntary nature of the exchange under competitive conditions;
d) Are determined by prices which reflect the client's *willingness* to pay;
e) Complete the financial relationship between the client and the business entity. Nothing further is charged to the client, who in turn does not have any control or influence over the utilization of the revenues realized by the transaction. Generally speaking, once the transaction is concluded, the client does not maintain any link with or obligation to the

[5] The dynamic view is not based on fair values measured by discounted present values, but rather on the matching principle. Fair values measured by discounted present values relate more to the logic of current valuation and therefore to the static view (Biondi, 2004).

economic and financial system of the business enterprise.

In the following, this definition is adopted as fundamental premise regarding the economic basis of the accounting representation of revenues for business enterprises. Even though different accounting views represent revenues in distinctive ways, the related incomes (that is, net revenues) always are the keystone of the economic and financial activity of the business entity. Incomes are at the same time its general purpose and its primary source of financing. They actually are the accounting representation of the "profit motive" that constitutes the leitmotiv of every economic theory of the business firm. Classical and neoclassical economic theories define income as wealth creation or value added (so-called economic income) in a world of complete markets (Beaver and Demski, 1979). In contrast, the accounting notion of income based on matching of actual costs and revenues may be justified by delving into the special economics of organizations and institutions (Biondi 2005, Biondi et al. 2007). Anyway, whether expected or generated, income is fundamental for business entities, as long as business is not conducted for fun.

The "profit motive" further involves an idea of "recovery" of the resources absorbed by or invested in the business (so-called capital maintenance). The activities of a business entity can be, and usually are, financed by sources in addition to incomes, for example, debts, but debts are constrained to be repaid and recovered through revenues. All sources of financing other than incomes, such as debts and shareholders' equity, are merely advances against future (net) revenues, allowing for the start-up and the sustainability of the economic and financial activities of the enterprise. These advances must be remunerated and recovered through incomes, either by payment of interest and repayment of amounts borrowed, or through the distribution of dividends and the ultimate dissolution of the enterprise. The business enterprise's financial and economic process begins with these advances, continues by transforming them into "investments" (assets), and finishes through the exploitation of these investments and the recognition of (net) revenues. This achievement is represented by the net incomes in the income statement.

From this perspective, the amounts conferred to the business enterprise are always "borrowed" by the entity. The actors conferring such sums are induced to do so by a lucrative motive and they demand recovery on a periodic basis (or by a final liquidation at the end of the engagement).

This "recovering" is the common refrain of all business enterprises. It relates to debt financing as well as shareholders' equity, and the accounting system follows this refrain by representing the activities of the enterprise at least as a set of advances and recoveries. The balance sheet organizes and discloses information about sources of financing and the resources acquired by these sources (assets). The income statement discloses information about the net benefits generated during a period of reference (among two different points in time).

Within this context, investments made (assets) may be determined either by costs or by fair values (the classic reference is here to Littleton, 1935). The cost approach relates to a dynamic view of enterprise accounting that focuses on "recovering" the total costs incurred by business activities. The focus is then on the incomes generated by the actual productive process of the enterprise entity through time. On the contrary, the fair value approach relates to a static view that focuses on "recovering" not only the amounts conferred on the enterprise but also the values of the investments made[6]. The focus is then on wealth creation and income is defined as the difference between two different valuations of the wealth held by the enterprise. In the latter case, the balance sheet recognizes the value of assets, and their amortization (and depreciation) implies a "recovery" based on these values. Revenues must surpass this level in order to generate a positive income. Capital gains on these values may increase the level of business income, but capital losses must also be charged against the revenues generated by the business enterprise.

Pursuant to these views, the management of the business firm is invited to recover either the invested costs, or the values of the resources mobilized and utilized (investments). These different views imply different accounting frameworks for revenues and costs, assets and liabilities (Table 3).

Table 3. Assets and Liabilities according to the static view and to the dynamic view

	Assets	**Liabilities**
Static view	Future monetary inflows (discounted present values)	Future monetary outflows (claims against)
Dynamic view	Capitalized monetary outflows (expenditures)	Advances against future monetary inflows (concerned with dynamics and

[6] Inflation accounting may ask the accounting entity to recover the value of the amounts conferred.

		complexity)

A static view focuses on the net worth of the entity at a particular point in time. Assets are seen as the discounted present value of future cash inflows, or as properties (or separable items) valued at their current market values (as if they were to be liquidated), while liabilities are seen as claims against assets. Business income is the residual to the shareholders. As such, it is considered to be a type of rent (or quasi-rent) with respect to the net worth. The residual arises from the wealth held by the entity and conferred to shareholders.

A dynamic view of accounting for business enterprises focuses instead on the financial and economic process of the enterprise during a particular period of time. Assets consist of the capitalized amounts of outflows incurred and reflected as invested costs according to their future usefulness to the enterprise. Liabilities are the sources of financing of these invested costs. From the dynamic viewpoint the whole set of financing and investing activities can never generate income for the enterprise. Business incomes result from the total activity and are represented by the whole of the costs and revenues related to the period of reference as aggregated by the income statement. During the twentieth century, the dynamic view was the predominant view of business enterprise accounting, and it heavily influenced the three leading principles of financial accounting, namely: the entity principle, matching, and historical cost (Biondi, 2005).

The accruals basis in the non-business sector

Neither a static nor a dynamic view of business accounting is suitable for public sector entities (Anthony, 1978; Mautz 1981; Pallot 1992; Zavattaro and Anessi Pessina, 1994; Biondi, 1995 and 2008), if their nature and role as *non-lucrative* human activities have to be maintained – the so-called "public benefit activities" in the IASB's jargon. In fact, what is the performance of a non-lucrative activity? The performance of a business enterprise, with limitations, is represented by the stream of net revenues generated which is allocated and distributed according to different arrangements and conditions. This stream is the business income to the firm. In contrast, the performance of a public sector entity involves satisfying social and collective needs; consequently there is no need for revenues or incomes to be generated or distributed. This non-lucrative activity can be accomplished either by transferring and redistributing resources or by the direct performance of activities (including furnishing of goods and services) without commercial transacting (in particular without reference to market prices). For instance, paying for teachers who perform educational activities that eventually respond to learning needs does not imply *necessarily* modeling schools as businesses producing services for a consideration, nor as producing services at all.[7] However, this does not exclude that some ongoing reforms could actually require this further business transformation through changes in the accounting and financial model. But, if the non lucrative motive has to be maintained, the accounting representation of the economic activities of the state and other non-business entities should be fundamentally different from those of business enterprises. Even if these activities involve some "non-business transfer of goods and services" (this is the usual economic jargon), operating inflows to non-business entities (which pay for teachers) are not revenues - as recognized by the French conceptual framework (MODERFIE, 2004, p. 9) -, especially because such inflows do not relate to market exchanges nor to prices fixed in these market transactions:[8]

a) The operating inflows are a transfer and are not measured at the equivalent price of a market transaction;
b) The non-business activity does not have a profit motive;
c) The transfer does not imply any evaluation, even crude, of the value of the generating activity;
d) The transfer is not based on the *willingness* to pay of the beneficiaries, but on their *capacity* to;
e) The transfer does not conclude the financial relationship between the beneficiaries and the entity, since they are still subject to the future implications of the relationship (for instance, the tax levy by the state).

Through both taxation and operating transfers, citizens confer resources to the state (or to the non business organization) in order to support activities having a special economic nature and

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[7] In this context, the French accounting expression "produit" (product), imported by the business accounting model, is even more misleading than the corresponding English word "revenue". The paper will define revenues from contributions (i.e., operating inflows) in the following section, where standards n° 3 and 4 (on revenues) are analysed in further detail.

[8] The letters correspond to the five characteristics of revenues defined for business enterprises above.

purporting to directly satisfy social and collective needs. While the accounting terms used by business and non-business entities are often the same, the resources conferred to the state are not "revenues", but represent instead "contributing sources", which are required to cover expenses (resources utilized), and to finance the resources acquired in order to accomplish certain state activities. The special economy of spending and redistributing implied by the state's activities requires a special system of accounting representation. In particular, both taxation and operating transfers should be considered as contributions (and sources of financing). The business accounting system determines and controls the ongoing recovery by revenues of either the costs or the values of the resources mobilized (investments made), since ultimately the absorption of resources must be recovered by commercial revenues or capital gains. In contrast, there is no need for recovering contributions that are granted (voluntary or compulsory) in order to sustain non-business activities.

Therefore, the usual accruals basis for business enterprises must be adapted to give an appropriate accounting representation of a non-business entity. Business accounting determines incomes that do recover investments made in order to seek for those incomes. This is why traditional accounting matching first determines revenues and then matched expenses (costs) against such revenues. In contrast, non-business accounting determines expenses, i.e., the resources mobilized and utilized during the period. These expenses are then matched against different kinds of contributions, since the expenses must be covered and financed by available contributions. This inverted understanding changes the accruals basis in non-business accounting. The expenses do not represent the absorbed costs or values that have to be controlled to generate incomes, but rather the resources required by the non-lucrative activities that have been performed during the period. The appropriate accounting control does not require the determination of a positive net result, but rather to disclose those expenses in meaningful groups and aggregates capable of revealing the resources' allocation among different activities and projects. Accounting representation cannot do more than this for non-lucrative organizations, which do not generate income performance. Disclosure in meaningful grouping of expenses is much more informative than the determination of some net result or performance. For all these reasons, the balance sheet focus and the fair value approach is not appropriate in a public sector setting, whilst the income statement focus and the cost approach is. The latter relates to the accountable use of resources for supporting public benefit activities.

Moreover, the inversion of the accruals basis requires a technical clarification. Take the example of a university which receives 100 monetary units to purchase computer software and spends 70 units during the first period and 30 units during the second period. Two different accounting representations of the grant are possible during the first period:

- On an accruals basis, the accounting system could recognize 70 units as contributions utilized (in the income statement), and reflect 30 units as an available fund for buying software (as an asset in the balance sheet); or
- On a cash basis, which was the usual mode of accounting representation in the public sector, the financial statements could recognize 100 units as contributions received during the period.

How would this activity be represented by the traditional accounting system *of a business entity* under a cost approach? A purchase of software involves the acquisition of a durable resource, which may be utilized for a number of periods (say two). To determine the business income generated on a period by period basis, the accounting system would allocate a portion of the expenditure as depreciation expense (linearly computed, for sake of simplicity), as shown in Table 4. Assume also that the business realized 80 units of revenue in each period.

Table 4. Accounting allocation on accruals basis <u>for a business entity</u>

Period	***T***	***t+1***	***t+2***
Revenues	80	80	80
Depreciation	35	50 (35 +15)	15
Income	45	30	65

If the goal of the accounting system were assumed to be to represent the resources acquired (or authorized) instead of those utilized, the cash basis would follow a different type of recognition procedure based on the expenditures incurred period by period as shown by Table 5.

Table 5. Accounting allocation on cash basis <u>for a business entity</u>

Period	***T***	***t+1***	***t+2***
Revenues	80	80	80
Depreciation (expenditures incurred for acquisition, capital payments)	70	30	0
(financial) Income	10	50	80

In contrast to the cash basis, the accruals basis makes special assumptions about the accruals of costs and their related amortization that will produce a different temporal allocation of business income on a period by period basis, even though the accumulated net income over all the periods is the same, that is 140. In both cases, the money spent to finance the initial investment on the software (asset) has to be recovered through the ongoing activity of the business entity.

The allocation pattern shown in Table 4 is not adequate for representation of non-business activities without adjustment. For example, if taxes were considered to be revenues in an economic sense, taxpayers might be obligated to pay twice for the state's activities: the first time by means of the tax collection that financed the resources immobilized as assets, and the second time by recovering the depreciation charge computed on the assets, which, when evaluated either at cost or at value, would be depreciated as if the activity were intended to recover the corresponding sources of financing.

In business accounting, the enterprise activity is represented by a flow of revenues from selling goods or services whose production mobilizes certain resources (expenditures) financed by advances from creditors or shareholders. The examples above (Table 4 and 5) assume a constant stream of revenues (80 units each period) against which the corresponding expenses are matched period by period. This matching is based partly on the cost of products sold, and partly on the costs incurred in the period of reference. In contrast, in the case of a non-business entity, all of the contributions received during the period may match not only the expenses (related to resources utilized), but also expenditures (through financing the acquisition of resources).[9] In particular, the non-business activity does not seek a constant stream of revenues from its contributors if this stream is not needed to accomplish its purposes. Instead, there is a stream of expenses (and expenditures) which must be sustained (and financed) by contributions in order to maintain the ongoing activity through time.

On this basis, two main ways exist to adjust the accruals method for the non-business activity: (A) matching based upon the activities accomplished during the period; (B) a combined matching based on activities and the period of reference. The first method (Anthony, 1978, pp. 62 ff., pp. 82-94) consists of determining the expenses related to the activities accomplished during the period and matching all the corresponding contributions. Whenever contributions are not affected in advance by the contributors themselves, this method implies both a subjective affectation to the corresponding expenses, and a subjective distinction among contributions destined to operations or investments. The latter may pass through the income statement either directly by means of a release of investment funds, or indirectly by means of charging for depreciation. This method is shown by Table 6.

Table 6. Accruals-basis accounting for a non-business entity: matching only to the expenses related to the activities accomplished during the period (method A)

Period	***T***	***t+1***	***t+2***
Depreciation charges	-35	-50	-15
Contributions (realized)	+70	+30	0
Balance	35	-20	-15

That subjective imputation causes this method to be difficult for technical and organizational reasons. Furthermore, this method may hide the collection of excess (or deficit) contributions during the period. Following Anthony (1978), the method must be integrated with traditional cash-basis accounting. Thus, in accordance with the second method (B), the contributions and the expenses are matched by taking the corresponding period as a reference. In this way, expenses are seen as independent of contributions. Contributions are then matched not only with

[9] The financing part of the contributions in the non business context acts as a borrowing in the business context, allowing a division of the cost over a number of periods, that is, over a number of future operating contributions (paid by a number of future tax payments).

expenses and corresponding activities, but also with the period of reference (this is usually done for taxes and assimilated inflows), as showed by Table 7.

Table 7. Accruals-basis accounting for a non-business entity: combined matching to activities and to the period of reference (method B)

Period	***T***	***t+1***	***t+2***
Depreciation charges	-35	-50	-15
Contributions (collected)	+100	0	0
Balance	65	-50	-15

Summing-up

The latter method is favored by the French reform and it is generally supported by recent trends in public sector accounting. The economic balance determined by this procedure represents the flow of resources utilized matched against the flow of contributions collected period by period.[10] When the balance is in deficit, sources other than contributions are paying for the activities. When the balance is positive, the organization is acquiring a surplus of resources that may be either employed in the future or already employed through financing of investments. GASB (1987, §61) provides the following interpretation for this "inter-period equity":

> The Board also believes that financial reporting should provide information to assist users in assessing inter-period equity by showing whether current-year revenues [contributions] are sufficient to pay for current-year services [expenses] or whether future taxpayers will be required to assume burdens for services previously provided.

This interpretation refers to the notion of inter-temporal redistribution (or equity). A further interpretation shall be discussed referring to the notion of spatial redistribution by stressing the economic redistribution accomplished through financial processes of debt-increasing and deficit-spending.

More generally speaking, this dynamic accounting model for governmental accounting provides specific responses to classic public accounting questions such as difference between business and non business accounting, increased control by the Parliament, and the determination of costs.

Concerning the analogy with business accounting, this section has disentangled two main

[10] For the two methods, the cumulated net balance (or result) is zero, as required by the non lucrative motive.

distinctive business accounting models, namely the static model and the dynamic one. The static model results to be inappropriate to the redistributive nature and role of economics of non business organizations. Only the dynamic model, with suggested adaptations, applies.

Concerning the authorization process by Parliament, the dynamic approach shows significant limits in controlling and reporting levels and changes of debt and expenditures – because of the accruals basis. Therefore, it should be integrated by enhanced cash-basis reporting and control. The latter may represent the whole of expenditures by activity and mission, according to a relevant classification of financially committed resources. As a matter of fact, business enterprises do not renounce to budgeting processes or financial management even though they adopt an accruals-basis for financial reporting.

Concerning the determination of costs, the dynamic approach estimates costs on the basis of imputable resources, but does not take into account changes on values (capital gains and losses and so on) involved by each activity, mission, or the non business entity as a whole. In addition, no direct link may be established between costing and performance, which relates to the direct achievement of public interest activities sustained by committed (and utilized) resources represented by those costs.

This dynamic accounting model for governmental entities shall be applied to the analysis of the new accounting framework for governmental accounting in France.

SECTION II – ANALYSING THE NEW FRENCH REGULATION FOR GOVERNMENTAL ACCOUNTING: THE CONCEPTUAL FRAMEWORK

Analyzing the new French conceptual framework

The new French conceptual framework (MODERFIE, 2004, pp. 5-18) appears to be at least partly aware of the logical difficulties involved in applying a business accounting model to the public sector. This is especially significant because the framework is not "a rule-making standard in itself", but "helpful material for understanding and interpreting the rules," and "a conceptual benchmark for rule-makers to ensure the consistency of various rules and standards" (p. 6). Ultimately, it aims to help preparers and users of accounting reports to understand and interpret the rules.

Following the dynamic accounting view, the French framework stresses the need for matching

expenses (“charges”) and contributions (“produits”) in order to make accounting an instrument for managing and interpreting governmental activities. In this spirit, the framework (*ibidem*, p. 12) refers both to the principle of going concern and to the accruals basis. This latter principle “is linked to the very concept of the accounting period, which is normally one year. The accruals accounting principle calls for recognition of expenses and revenues only in the accounting period to which they actually relate” (*ibidem*, p. 12).
However, by quoting article n° 27 of the LOLF, the framework declares that the “central government’s financial statements must be lawful and faithfully present a true and fair view of its net worth and its financial position”, with no reference to expenses and corresponding contributions, even though it is supposed to measure the “net costs” of governmental activities and also their “performance” (pp. 7, 9). The lack of this reference appears to reflect a static view. According to this view, the accounting framework should represent the net worth (“patrimoine”) of the state as an entity. The net worth of the state has to be determined by the rights and obligations recognized as assets and liabilities, even though the dynamic notions of expenses and revenues are also mentioned. The static view further implies a determination of how much the state has “rented.” This view leads to the doubtful idea that the state should manage its assets and revenues in order to generate a rent, which would be comparable to the performance measurement aspect of the business enterprise static accounting model.

Under democratic political regimes, the static model is then at odds with the usual understanding and the legal basis of tax levy, which imply the redistribution of resources collected either by transfers or non-business furnishing of goods and services. Stanton and Stanton (1998) provide a critique of the economics underlying business-style accounting and conclude that the use of the economic concept of value is inadequate and unreliable in the public sector. This kind of accounting will result in information which reflects neither the financial nor the economic position of the reporting public entity. Already Holder (1980, p. 31) doubted of such a proprietary view in the public sector, and adopt a dynamic entity view which made clear the appropriate relationship between government and citizens (taxpayers), for example in terms of “command over resources.” Moreover, Robinson (1998) criticized the static approach based on current valuation, and tried to improve on an accruals accounting fitting the sustainability and “intergenerational equity” implications of fiscal policy. McCrae and Aiken (2000) developed a "flow of obligations" perspective of accounting for the public sector that refers to a flow or matching concept of service provision rather than a "stock" or "valuation" concept.

The French framework (pp. 8-9) seeks to avoid this paradoxical static approach to governmental activity by recognizing that its accounting system does not have any "initial capital amount" destined to be maintained and recovered, and that the static notions of assets and liabilities are not pertinent, since:

- When assets are defined according to the static logic as every element capable of generating a current or future positive value, the sovereign "right to levy taxes" might then become an intangible asset that the state could exploit;
- "Sovereignty also has a major consequence with regard to the notion of liability, which sometimes requires original solutions for the central government that go beyond the recording of conventional liabilities, like those of businesses."

In sum, the French framework implies both a static and a dynamic view by referring simultaneously to value and cost bases of accounting. This ambiguity explains why it does not include a comprehensive income statement and why it splits the representation of the "financial performance" into three different statements of the "net situation".[11] In fact, the question of consistency in the framework reappears when the interpretation of these statements is specified, since it is stated that the statements should allow the ability (II.5, p. 11):

- "to *measure costs*, which is critical for an objective approach to justifying budget appropriations, management choices and *performance assessments*." (italics added);
- "to track changes in the *value* of assets, particularly the *value* of tangible assets and financial assets. This provides information about *how well the central government manages such assets* in a limited, but important, area." (italics added);
- to track "tax revenues on another basis than cash receipts". This "enables us to better assess the efficiency of the system and provides key resources for *improving management* and forecasts." (italics added).

[11] "A statement of financial performance is presented in three parts: a net expenses statement, a net sovereign revenues statement, and a net operating surplus or debt statement for the period." (*ibid.*: 11).

In conclusion, the static view does not fit the special economy of the state which involves the redistribution of resources collected either by transfers or "non-business furnishing of goods and services." The static view is not compatible with the notion of tax defined by the standard n°3 of the framework: "Tax is a sum of money that the government requires individuals and corporations to pay irrevocably and with no direct equivalent exchange in order to cover public expenses." (p. 56).

The case of a building acquired through tax payments may clarify this point[12]. Taxpayers do not have to pay a rent charge for the use of the building, since they have already financed the invested cost of the building through taxes. They do not have to pay several times for fixed assets but only once. Furthermore, they do not want their future taxes, destined to "cover public expenses," to cover changes in the value of the building (changes that the static view accounts for through depreciation and amortization charges). To be sure, a rental charge may constitute a further inflow available for further activities, but its recognition as an "expense" would imply an accounting representation and interpretation that contrasts with the logic of spending and redistributing that is the foundation of every *non-lucrative* activity, including governmental activities under democratic political regimes.

The economy of a Government is no longer that of a Kingdom, and its accounting system must not account for the royal patrimony, even though the English Treasury is still called "Her Majesty's Treasury". On the contrary, governmental accounting systems are nowadays expected to accounting for public interest generating activities accomplished by public administration (and their cost and financing) on behalf of citizens and society. The accounting representation figures out this collective entity of public administration. This purpose and scope implies to overcome the impossible notion of capital as patrimony that is involved by the static accounting model. The dynamic focus shapes the conception of income statement and balance sheet that jointly represent the economy and finances of public administration[13].

The rest of the section will show how the double reference to static and dynamic accounting

[12] See also Aiken (1994).
[13] The rest of the paper follows this focus on the economic process, and neglects then the significant matters of consolidated statements and of monetary and financial processes.

models undermines the consistency of the new French governmental accounting framework, and seriously takes the risk to undermine the expected accomplishment of its "public interest generating activities". For sake of clarity, this analysis will be based on punctual comments and suggestions on specific standards, starting from presentation of the income statement, through revenues and charges, to conclude with assets and liabilities. In particular, we consider standards n° 1 (financial statements), n° 2 (expenses), n° 3 and 4 (revenues), n° 5 (intangible assets), n° 6 (tangible assets), n° 7 (financial assets), n° 10 and 11 (financial position), n° 13 (pension engagements to be mentioned in notes).

Statement of operations (Standard n° 1)

The double reference to static and dynamic accounting models is still apparent in the income statement regulated by standard n°1. The statement of operations is firstly divided in two parts, one devoted to net expenses, the other devoted to net "products" (revenues), and finally reconstituted in the "Statement of determination of balance of operations of the period" (Table 8).

Table 8 - Statement of determination of balance of operations of the period

	Year N	Year N-1	Year N-2
Net expenses of functioning (V) Net expenses of intervention (VIII) Net expenses of financing (XI)			
Net expenses (XII)			
Net fiscal products (XIII) Net other governmental products (XIV) Contributions to EU based on GNP and VAT (XV)			
Net governmental products (XVI)			
Balance of operations of the period (XVI-XII)			

Source: Moderfie 2004: 27

This statement appears to synthesize information on public interest generating activities during the period, in a way focalizing on how much shall be still paid by the state as an entity (the balance). However, regarding that same statement of activities, the GASB (2006, p. 25) requires:

> Unlike an income statement of a business enterprise, the statement of activities focuses on the cost of services provided by function or program and the extent to which they either contribute to, or draw from, the general revenues of the government. The statement serves as the basis for beginning an analysis of management's performance, but for a more complete assessment of effectiveness and efficiency, additional performance measures would need to be considered.

The financial statements established by Standard n° 1 of LOLF are impacted by this troubling double reference. With respect to the statement of net expenses ("tableau des charges nettes"), the sales of goods or services and the contributions from other entities are not classified as "revenues" but are deducted from expenses. Moreover, the allocations include not only the depreciation charges related to utilization of resources for governmental activities, but also amortization of impairment losses pertaining to the value of certain assets.[14] In conclusion, this kind of disclosure does not allow its user either to identify the actual expenses incurred to perform activities, or the contributions collected to sustain them. The expenses are not aggregated in a way which allows a correlation with the corresponding activities, even though the reform requires a detailed appropriation according to different missions and programs.

*The definition of revenue or product (*Standards n° 3 and 4*)*

The double reference to static and dynamic accounting models does not concern only the presentation of the income statements, but involve also its constitutive notions of revenue ("produit") and expense ("charge").

In particular, this trouble exists (MODERFIE 2004, pp. 15-16) when tax levies must be justified in terms of "revenue" instead of "contribution". When the five operational characteristics of business revenues are considered (see above), taxes or "operating contributions" cannot be understood as "sovereign revenues" ("produits régaliens"); instead they are sources of contributions destined to cover actual expenses. This is a key feature of the special economy of spending and redistributing implied by public sector activity.

[14] Even active financial asset management which generates "financial revenues" might require some clarifications under a theoretical perspective concerned with its macroeconomic meaning and impact for the economic system as a whole.

These two standards refer to different classifications of revenue. The first classification distinguishes between sovereign[15] and non sovereign revenues, the second between transactions with or without "direct equivalent exchange with other parties." (p. 51). The latter class (transactions without equivalent exchange) includes sovereign revenues and operating contributions on a non-commercial basis. Residual transactions "involving a direct exchange of equivalent value for the other parties" are then limited to "sales of goods and services, disposal of assets or use of tangible, intangible and financial assets by other parties" (p. 51). Even though the financial statements refer mainly to the first classification, the second one is useful to stress the difference between commercial transactions and other economic transactions related to taxes and contributions. Generally speaking, theoretical interpretations assume that every transaction involving a transfer is a commercial transaction, which implies a price and an economic equivalence. But the transferred amount can be considered as revenue only if the five characteristics of revenue discussed previously are respected. Otherwise, the transfer must be considered as an "operating inflow" (not revenue),[16] according to the following definition adapted from Anthony (1978, p. 31):

> These non-revenue inflows may be referred as to "non equivalent transfers" since they involve an inflow of resources without an equivalent market transfer of goods or services.

A typical example of these inflows might be the annual fees paid by regular undergraduate students at public and non-profit universities. Those fees pay for the activities of teaching, but do not correspond to "business revenues", nor to the commercial buying of teaching products.

*The definition of expense (*Standard n° 2*)*

The public role of redistributing resources is recognized in this standard especially by the notion of "intervention expenses", which are defined as "payments that the central government makes as part of its economic and social regulation role" (MODERFIE, 2004, p. 40). However, this standard does not address the interesting case of taxes on salaries of governmental employees. In this case, the state is levying taxes on itself. These amounts factually do not appear as expenses, that is, from the economic viewpoint, they do not a consumption of resources that must be

[15] "Sovereign revenues" arising from tax levies are recognised at the time of tax collection.
[16] See also GASB (2006: 18).

covered by contributions. From the disclosure viewpoint, then, these "expenses" should be distinguished from other expenses. In addition, from the financial viewpoint, they should also be excluded from expenditures requiring public borrowing. This radical change would require further enquiry, but, at the first glance, only the alleged parallelism between the business and the public sector justifies the current mode of accounting.

Furthermore, the disposal of governmental personnel and physical assets for other entities should be better disclosed. This disposal shall be clarified by notes, but it is still unclear how financial accounting and reporting deal with. The related expenses should not be mingled with the other charges, especially when costing of governmental activities is concerned.

More generally speaking, the notion of expense relates to the transition from cash basis towards accruals basis, which requires imputation of revenues and expenses and the determination of depreciation and impairment. The latter are fundamentally related to the underlying notion of asset.

The definition of asset

The question of the consistency of the framework especially concerns the definition of asset ("actif"), which can be static or dynamic. According to the framework:

> An asset is a net worth item that has a positive economic value for the central government, meaning that it is a resource controlled by the government that is expected to produce economic benefits in the future. The future economic benefits for the government mean either cash flows accruing to the government from the use of the asset or the potential production of services expected from the use of the asset for the benefit of the government or others in keeping with its tasks or purposes (p. 14).

This definition testifies again both to the static notion of an asset as "net worth item" (a positive economic value, often associated with a property), and to the dynamic notion as "resource controlled and used". The two notions further imply two different methods of representation: the static one in terms of value (market or discounted present value), the dynamic one in terms of cost invested and depreciated. These methods also follow two different patterns of reference: the static one emphasizes the discounting of future inflows, while the dynamic one emphasizes the capitalization of actual outflows (Table 9).

Table 9. The analysis of the definition of asset provided by the framework		
	Static view	**Dynamic view**
Definition	"An asset is a net worth item that has a positive economic value for the central government"	"An asset is a resource controlled by the government that is expected to produce economic benefits in the future"
Basis of reference	"cash flows accruing to"	"potential production of services expected"
Measurement	Discounting of future cash inflows	Capitalization of actual outflows

Only the dynamic view fits the non lucrative context of governmental activities, since this view is based on the asset's capacity to contribute to providing the public services that are the mission of governmental entities, and prescribes a method of representing (and impairing) assets based on their (reductions in) service potential (see also GASB 2006, p. 11). In the case of donated assets, this view leads to a double recognition: one in the assets-side at a reasonable amount that will be amortized, and another in the liabilities-side, at the same amount, as a fund of contribution that will be released as "contributing revenue" along with the amortization charges in the income statement.

Accordingly, specific comments apply to respective definitions of intangible, tangible, and financial assets.

Standard n° 5 (intangible assets). Even though the French framework follows the dynamic view by determining intangible assets according to their service potential and thus to their cost invested (p. 75), the standard also appears to recognize intangibles according to their fair values as determined by discounted future cash flows. This implies two issues: (i) depreciation and amortization, and (ii) capitalization of expenditures.

The inclusion of depreciation or amortization amounts computed on the value of assets is inconsistent with the notions of expense and tax contained in standards n°2 and 3. An expense must correspond "either to the consumption of resources as part of the production of goods or services, or to an obligation to make an irrevocable payment to another entity that has no direct counterpart" (p. 39), while a tax is "a sum of money that the government requires individuals and corporations to pay irrevocably and with no direct equivalent exchange in order to cover public expenses." Even though the balance sheet can disclose information about the value of assets held, this information should not modify the total expenses charged to taxpayers.

Furthermore, the reference to future cash flows to the entity prevents capitalization and amortization of various expenditures of public interest concerned with "social utility, environment, culture, education, or research" (p. 109). These expenditures do not produce a reliable expectation of future cash flows to the state as an entity, but the state's institutional purposes require the capitalization of these expenditures in order to require future taxpayers to contribute to them. The expenditure is then shared among present and future taxpayers through accruals accounting allocation (Robinson 1998).

Standard n° 6 (tangible assets). The notion of tangible asset testifies both to the static and to the dynamic view of accounting. According to this standard (p. 78, italics added):

> In business accounting, assets are usually defined as items that can be used to generate future cash flows. *This line of reasoning does not apply to the primary characteristics of most central government assets. Therefore, such assets are also defined with reference to service potential* or, according to the terminology used by the IFAC Public Sector Committee, they are defined as assets "embodying service potential" that do not generate cash flows.

This standard emphasizes a dynamic view when public sector activities are concerned. It generally leaves the static emphasis to property and fair values, and emphasizes the dynamic view for resources controlled and mobilized by public sector activity. Even so, some valuations of specific tangible assets involve an exception to this general emphasis, for example: "non-specialized buildings." The annual depreciation charge is computed on their current market value, and thus there is the same problem of inconsistency as described above in the case of intangibles. Furthermore, this *fictitious* charge for depreciation may hide a further emergence of an *actual* charge arising from the disposal of the buildings.

Standard n° 7 (financial assets). The framework follows the criteria issued by IASB for business entities by stressing legal control, but integrates these criteria with three further criteria (pp. 113-114):

- non-market activity financed mostly by the central government;
- tasks and targets set by the central government;
- activities closely supervised by the central government.

The problem with impairment losses also appears. A distinction should be made between actual losses to be recovered, and unrealized changes in value.

Accounting for financial position and pension obligations (Standards n° 10, 11, and 13)

The framework rejects the "full fair value valuation" advocated in recent debates on business accounting, and recognizes financial positions at their face values. In the controversial case of pension obligations, the framework does not integrate these obligations into the financial statements and relegates them to the notes. Contrary to the general principle of face value valuation, these obligations are determined by the present value of the gross obligations.

This position comes from a prudent attitude concerning the interpretation of governmental accruals accounting, which the framework claims in financial solvency and sustainability matters (p. 11):

> The preceding discussion about the meaning of the financial position and surplus/deficit shows that interpretation of the financial statements calls for a degree of prudence, particularly when it comes to analyzing solvency.

From this perspective, the public policies of deficit spending and consequent public borrowing are not sustained by the state as an entity, but as a special economic function within the economic system. This function awakens "sleeping" financial capitals by creating supplementary consumption from the cash withholds (savings) kept by families and firms. The state creates a special economy of consumption based on continued financial borrowing, where its financial liabilities as an entity play a peculiar role as capitals that are going to be spent (a sinking of capital). In this context, a loss determined on an accruals basis means that the current consumption (determined by expenses) has been bigger than the current contributions (determined by net sovereign revenues). This consumption has been permitted by the sinking withdrawal of available financial capitals. For the individual lender, this withdrawal is a credit that will be charged with interest and recovered, but for the whole system it acts as a consumption of the "sleeping capitals." This perspective leads to an appreciation of the solvency and sustainability of public borrowing as much by its solvency as an entity as by its sustainability under the actual financial and economic conditions of the whole economic system. Furthermore, it requires a discussion of policies of public debt reduction in terms of less consumption of sleeping capitals (that ought to be awakened otherwise), and consequently less redistribution of wealth. Finally, the latter interpretation appears to clarify the economic meaning of a governmental (state) balance sheet having a ever-increasing negative balance on accruals-basis (Table 10).

Table 10. State's Balance Sheet	***2007***	***2008***
Total Assets (I)	*555 248*	*534 255*
Total Liabilities (Balance excluded) (II)	*1 211 577*	*1 127 398*
Balance (III = I – II)	*- 656 329*	*- 593 144*
Source: Comptes de l'Etat 2007, May 2008, www.comptes-publics.gouv.fr		

SECTION III – THE SOCIO ECONOMICS OF PUBLIC ADMINISTRATION BEHIND ACCOUNTING STANDARDS

According to Anthony (1978, p. 25), "some people seem to expect that changes in an accounting system will cure certain problems in an organization that actually are the responsibility of management or of oversight bodies". "Accounting does not cure problems, […] accounting can, with limitations, record what the facts are, and it can interpret the facts, but it cannot by itself change the facts". Both cash-basis accounting and the accruals approach for public sector entities seek to be managerial instruments, driven by different views of what public management is and should be. The old logic (Perrin, 1998, p.10) sees the public system only as an *institution*, framed by laws and with clear obligations to its beneficiaries, but completely overlooks *organizational* issues. However, states administer activities whose complexity and size are often far beyond the biggest business firms, activities underpinned by ideals of public service for and available to every citizen. From the traditional perspective, the accounting system focuses on ex ante budget authorization, and "item-by-item appropriations approved by the legislature are entered into the account books as the amount available for spending on each item during the year" (Sunder, 1997, pp. 196-197). A formal identity involving conformity to procedures and accomplishment of organizational purposes is then assumed. Changing this habit and repairing its flaws require much more than a change in the accounting system. The accruals basis is inadequate to these tasks, and might imply unexpected impacts on the nature and role of public activities, pushing them toward *lucrative* activities (Table 11). In particular, the usual authoritative logic might integrate new measures of performance in terms of conformity to rules, while a static accounting view might become even a stronger hindrance to an effective administration of spending and redistributing (as recognized by Standard n°2, MODERFIE, 2004, p. 36). In addition, according to Connolly and Hyndman (2006), and Barton (2004), the actual implementation of business-style accounting may result in an obfuscation of costs and a misunderstanding of the underlying economics and disclosure.

Table 11. A theoretical classification of economic organizations (entities)

Financial and economic process based upon :		Logic of reference
Revenues and borrowing	*Business enterprises*	*Commercial transacting;* *Business incomes to the firm*
Taxes	*Central government and its entities*	*Sovereignty*; *Economy of redistribution*
Contributions (donations, gifts, non commercial transfers)	*Non-business entities (charities) and other public entities not based on tax funding (Health or Education, in some cases)*	*Solidarity ; Economy of expense*

This change must understand the specificities of the special economy of public sector activities, as well as the logic of organizational behavior, and the whole of purposes, public activities and corresponding entities. These entities are *institutions* and *organizations*. If they are charged with a public interest mission, these charges must be coupled with a fiduciary responsibility and a more autonomous management of resources, together with appropriate managerial instruments. Their valuation cannot be bound to figures of cost and performance, but must involve the whole conception and implementation of the entities and the framing system. The cognitive problem relates to this overall mode of instituting and organizing the activities of public interest. The accounting system of representation and interpretation interacts with this mode.[17] But, even the accruals basis system cannot reduce the level of costs of the overall administration *alone*. The matching principle allows a better correspondence between expenses and contributions destined to recover them *at the entity level*, but does not change – by itself - the level of costs, and does not assure their reduction. The accruals basis might involve some behavioral incentives by highlighting costs and then encouraging further efficiencies, but it might simply involve an

[17] Collier (2005) analyses these governance implications in the case of the reform of the social housing agency in England.

organizational pressure to match costs with payments from beneficiaries, that results in an implicit profit motive. Anyway, the careful consideration of the whole system is required, as the health sector testifies. If we compare the international experiences in this sector, one of the most expensive public tasks, the systems based on competing and autonomous entities, coupled with individualistic modes of financing (and accounting), appear to be more expensive and less equitable than systems based on overall administrative control of expenses and remunerations.[18] As Olson, Humphrey, and Guthrie (2001) show, the public services appear to be caught in an "evaluatory trap," where the continual promotion of new performance-driven reforms eventually lead to ever-decreasing public services at ever-increasing costs, and the future for public services is then in question. According to Ellwood and Newberry (2007), the shift towards accruals accounting systems appear to have implied a downsizing of the public sector activity.

In our opinion, the alleged causal relationship between business-like accounting (and management) and reduction of costs exists only in a world framed by a price system, i.e., a world of complete perfectly contestable markets. Every human activity is then controlled ex ante by external forces driven by the price mechanism and monetary incentives. A striking analogy exists with the world of pure law, where public administrations are controlled ex ante and by external forces driven by rules and formal responsibilities. In contrast, in a world of organizations concerned with real dynamics and complexity, every ongoing entity involves overhead allocations and immobilizations that do not allow for control ex ante and by external forces (Biondi, 2005). For example, once contributions (taxes, transfers, grants) are utilized to organize a non lucrative activity, (i) asking beneficiaries to pay for its services may reduce demand and thus imply waste. Furthermore, (ii) this request to pay might not to be fair, since direct beneficiaries do not necessarily pay for non lucrative activities. Finally, (iii) this request might compromise the accomplishment of certain purposes, since important activities having few direct beneficiaries might be neglected or abandoned.

CONCLUSION

As Anthony (1978, p. 25) points out, "accounting does not cure problems", but it provides an

[18] This could be the case even for the Treasury's overall coordination of public borrowing.

important system of representation and interpretation of the financial and economic processes generated by human activities and related entities. In particular, every ongoing organization involves overhead allocations and immobilizations that lay at the core of the special organizational economy that is shaped and framed by the accounting system. The notion of entity is the accounting way of taking into account the special economy of every organization.

At present, both business and non-business accounting systems appear to be converging. However, the process of reform needs to pay attention to the special economy implied by non business activities and to its cognitive, organizational, and institutional needs, if their nature and role as *non-lucrative* human activities have to be maintained. This paper has suggested a dynamic view of the accounting system that appears to be consistent with those needs. This view focuses on the flow of expenses and corresponding contributions, and may enhance the current public sector accounting system of representation and interpretation by fitting the sustainability and intergenerational cost sharing implications of fiscal policy. Moreover, this view casts doubts on the misplaced application of a static approach based on current valuation that may result in a misunderstanding of the underlying economics of public sector activities. The very notion of non business organization as an entity is at issue here, if this notion results in misrepresenting the nature and role of public sector activities in the overall economic and financial systems. Pursuant to a dynamic perspective, the notion of entity can be disentangled from the notion of wealth (patrimony) that must be maintained and recovered. A flow basis of accounting is required, allowing the appropriate understanding of the socio-economic flow of relationships that characterize the non business activities devoted to the satisfaction of social and collective needs.

This dynamic approach has implications for the accounting notions of revenues and assets, and for the accounting and economic issues such as assets valuation, financial solvency or intangibles. The recent public sector accounting reform in France, the LOLF, which mandates a special framework for central governmental accounting, provides here a significant field of inquiry. The dynamic approach has been applied to the analysis of the new French framework that comprises a conceptual framework and thirteen specific standards, and it has raised several general and specific issues concerned with the nature and role of the state as an entity with respect to public interest activities.

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